

FEDERAL RESERVE BANK  
OF NEW YORK

[ Circular No. 8963 ]  
December 1, 1980

AMENDMENT TO REGULATION D  
Calculation of Eurocurrency Liabilities

*To All Commercial Banking Institutions,  
and Others Concerned, in the Second Federal Reserve District:*

The Board of Governors of the Federal Reserve System has issued an amendment to its Regulation D, "Reserve Requirements of Depository Institutions," which affects the calculation of Eurocurrency liabilities by domestic depository institutions and by U.S. branches and agencies of foreign banks. These liabilities are being phased in to a 3 percent reserve requirement under Regulation D.

The following is quoted from the Board's announcement:

At present, in calculating Eurocurrency reserve requirements, loans of a financial institution in the United States to its offices abroad may be used only to offset funds received by the institution from its offices abroad.

As revised, the regulation permits an institution to use loans to foreign offices not only to offset borrowings from foreign offices but also to offset the amount of assets sold to foreign offices and, in the case of domestic depository institutions, loans by foreign branches to U.S. residents.

The change is intended to avoid imposing reserve requirements on the same funds twice: once, when the funds advanced to the foreign branch are raised in this country, and again when they are used by a foreign office to purchase assets from a domestic office or when they are lent by a foreign branch of a domestic depository institution to a resident of the United States.

Enclosed—for commercial banks, Edge and Agreement corporations, and U.S. branches and agencies of foreign banks—is a copy of the text of the amendment to Regulation D. A printed copy of the amendment, in slip-sheet form, will be sent to you when available.

Questions regarding the amendment may be directed to our Accounting Control Division (Tel. No. 212-791-5250 or 5249).

ANTHONY M. SOLOMON,  
*President.*



TITLE 12 -- BANKS AND BANKING

CHAPTER II -- FEDERAL RESERVE SYSTEM

SUBCHAPTER A -- BOARD OF GOVERNORS OF THE  
FEDERAL RESERVE SYSTEM

[Regulation D]

(Docket No. R-0332)

Part 204 -- RESERVE REQUIREMENTS OF DEPOSITORY INSTITUTIONS

Eurocurrency Liabilities

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final rule.

SUMMARY: The Board has amended Regulation D--Reserve Requirements of Depository Institutions (12 CFR Part 204) to permit a U. S. depository institution or Edge or Agreement Corporation to use net balances advanced to its foreign branches to offset the amount of credit extended by its foreign branches to United States residents and the amount of assets sold to its foreign branches or to foreign offices of an affiliated Edge or Agreement Corporation. In addition, a United States branch or agency of a foreign bank will be permitted to use net balances advanced to its foreign bank (including its branches located outside the United States) to offset the amount of assets sold to its foreign bank (including its branches located outside the United States), its parent holding company, and non-United States offices of an affiliated Edge or Agreement Corporation. This action will result in more equitable application of reserve requirements on Eurocurrency liabilities by eliminating the possibility that institutions would hold double reserves as a result of certain Eurocurrency transactions.

EFFECTIVE DATE: The maintenance period beginning December 11, 1980, for transactions occurring during the reserve computation period beginning November 27, 1980.

FOR FURTHER INFORMATION CONTACT: Gilbert T. Schwartz, Assistant General Counsel (202/452-3625), or Paul S. Pilecki, Attorney (202/452-3281), Legal Division; Sydney J. Key, Economist, Division of International Finance (202/452-3697), Board of Governors of the Federal Reserve System, Washington, D. C. 20551.

SUPPLEMENTARY INFORMATION: The Board of Governors has adopted amendments to Regulation D--Reserve Requirements of Depository Institutions (12 CFR Part 204) to permit a depository institution to reduce, by the amount of its net advances to its foreign branches, the amount of its Eurocurrency

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liabilities representing credit extended to United States residents by its foreign branches and assets held by its foreign branches or by foreign offices of an affiliated Edge or Agreement Corporation that were acquired from its United States offices. This amendment affects the amount of required reserves on Eurocurrency liabilities for depository institutions organized under the laws of the United States and its States and for Edge and Agreement Corporations ("domestic institutions").

In addition, the Board has amended Regulation D to permit a United States branch or agency of a foreign bank ("branch or agency") to reduce the amount of its Eurocurrency liabilities representing assets acquired from the United States branch or agency that are held by its foreign bank (including offices thereof located outside the United States), by its parent holding company, or by foreign offices of an affiliated Edge or Agreement Corporation by the amount of its net advances to its foreign bank (including offices thereof located outside the United States). Branches and agencies are not subject to reserve requirements on the amount of credit extended to U. S. residents by their overseas offices.

Under Regulation D, at present, Eurocurrency liabilities of a domestic institution include the sum of (1) positive net balances due to its non-United States offices from its United States offices; (2) assets held by its non-United States offices that were acquired after October 6, 1979, from its United States offices ("assets sold"); and (3) credit outstanding from non-United States offices of a depository institution to United States residents with certain exceptions ("loans to U. S. residents"). Thus, the amount of assets sold to foreign branches and the amount of branch loans to U. S. residents cannot be offset by any negative net balances due to its foreign offices by a domestic depository institution. However, if an institution were a net lender of funds to its foreign branches, funds that were advanced to the foreign branches and used to purchase assets from the U. S. office or for a loan to a U. S. resident might be counted twice for reserve purposes, since the funds advanced to the foreign branches already may have been subject to reserve requirements as a domestic transaction. Therefore, the Board has amended the definition of "Eurocurrency liabilities" so that net balances of a domestic institution advanced to its foreign branches may be used to offset the amount of its foreign branch loans to U. S. residents and the amount of assets sold to its foreign branches.

With regard to branches and agencies, Eurocurrency liabilities include the sum of (1) positive net balances due to its foreign bank (including offices thereof located outside the United States) after deducting a capital equivalency allowance, and (2) assets held by its foreign bank (including offices thereof located outside the United States),



by its parent holding company, or by non-United States offices of an affiliated Edge or Agreement Corporation ("assets sold by branches and agencies") that were acquired from the branch or agency after October 6, 1979. Since similar considerations that apply to the offsetting of assets sold by domestic institutions apply in the case of assets sold by branches and agencies, a branch or agency will be permitted to offset the amount of its assets sold by the amount of any net advances to its foreign bank, including offices thereof located outside the United States. A branch or agency also will be permitted to apply its capital equivalency allowance to offset assets sold in computing the amount of Eurocurrency liabilities.

These amendments are effective for reserves required to be maintained during the seven-day period beginning December 11, 1980, against Eurocurrency liabilities outstanding during the reserve computation period beginning November 27, 1980. The Board believes that these modifications will provide more equitable treatment to depository institutions and branches and agencies consistent with the needs of monetary policy. Consequently, the Board, for good cause finds that the notice, public procedure, and deferral of effective date provisions of 5 U.S.C. § 553(b) with regard to this action are impracticable and contrary to the public interest.

Effective December 11, 1980, pursuant to the Board's authority under sections 19, 25 and 25(a) of the Federal Reserve Act (12 U.S.C. §§ 461 et seq., 601 et seq., 611 et seq.) and section 7 of the International Banking Act of 1978 (12 U.S.C. § 3105), Regulation D (12 CFR Part 204) is amended as follows:

In section 204.2, paragraph (h) is revised to read as follows:

SECTION 204.2--DEFINITIONS

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(h) "Eurocurrency liabilities" means:

(1) For a depository institution or an Edge or Agreement Corporation organized under the laws of the United States, the sum, if positive, of the following:

(i) net balances due to its non-United States offices from its United States offices,

(ii) assets (including participations) held by its non-United States offices or by non-United States offices of an affiliated Edge or Agreement Corporation that were acquired after October 6, 1979, from its United States offices, and



(iii) credit outstanding from its non-United States offices to United States residents (other than assets acquired and net balances due from its United States offices), except credit extended (i) in the aggregate amount of \$100,000 or less to any United States resident, (ii) by a non-United States office that at no time during the computation period had credit outstanding to United States residents exceeding \$1 million, or (iii) to an institution that will be maintaining reserves on such credit pursuant to this Part. Credit extended to a foreign branch, office, subsidiary, affiliate or other foreign establishment ("foreign affiliate") controlled by one or more domestic corporations is not regarded as credit extended to a United States resident if the proceeds will be used in its foreign business or that of other foreign affiliates of the controlling domestic corporation(s).

(2) For a United States branch or agency of a foreign bank, the sum, if positive, of the following:

(i) net balances due to its foreign bank (including offices thereof located outside the United States) after deducting an amount equal to 8 per cent of the following: the United States branch's or agency's total assets less the sum of United States currency and coin, cash items in process of collection, unposted debits, balances due from depository institutions organized under the laws of the United States, balances due from other foreign banks, balances due from foreign central banks, and net balances due from its foreign bank and the foreign bank's United States and non-United States offices, and

(ii) assets (including participations) held by its foreign bank (including offices thereof located outside the United States), by its parent holding company, or by non-United States offices of an affiliated Edge or Agreement Corporation that were acquired after October 6, 1979, from the United States branch or agency (other than assets required to be sold by Federal or State supervisory authorities).

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By order of the Board of Governors, November 26, 1980.

(signed) Theodore E. Allison

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Theodore E. Allison  
Secretary of the Board

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